

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 10 - GENERAL FUND**

**CHARTER SCHOOL BOOKKEEPING**

The State Board of Education has, in accordance with law, prescribed a uniform double-entry system of bookkeeping for use in all charter schools and is authorized to compel its use. (*N.J.S.A.* 18A: 4-14, *N.J.A.C.* 6A:23-2.1).

The Uniform Minimum Chart of Accounts for New Jersey Public School (2003 Edition) (COA) was originally published in 1992 with the latest update effective July 1, 2004. The revision incorporates updates made through annual revisions to the budget guidelines and in general accounting memos. The revision in part reflects the National Center for Education Statistics (NCES) reporting requirements and necessary changes for reporting under GASB 34 financial reporting model and is available on the web site <http://www.nj.gov/njded/finance/fp/af/coa/>.

GASB 34 distinguishes between funds which benefit the charter school (Permanent funds) and those for which the charter school acts as a trustee or agent, but where the resources benefit other governments, individuals, or organizations (Trust or Fiduciary funds). Governmental fund 50 should be used to record the accounting for Permanent funds. Expendable trusts that benefit the charter school should be included in the Special Revenue fund. The Proprietary funds use fund 60 and fund 70, and the Fiduciary funds use funds 80, 90, and 95. When the charter schools use the reimbursable or pay as you go method for unemployment, the Unemployment Compensation Trust would be included in fund 80. The resources and changes in net assets of a private purpose scholarship fund would also be reported here. The fiduciary funds are not included in the accrual level statements (A – series) since they do reflect assets of the charter school.

The following is a listing of funds for reporting using the revised chart of accounts structure effective July 1, 2004.

**Governmental  
Funds**

Fund 10	(General fund)
Fund 20	(Special revenue fund)
Fund 30	(Capital projects fund)
Fund 40	(Debt service fund)
Fund 50	(Permanent fund)

**Proprietary Funds**

Fund 60	(Enterprise fund)
Fund 70	(Internal service fund)

**Fiduciary Funds**

Fund 80	(Trust funds)
Fund 90	(Agency funds)
Fund 95	(Student activity funds)

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**Board Secretary and Treasurer Reports**

In accordance with *N.J.S.A.* 18A:17-9, the board secretary shall report to the board at each regular monthly meeting the amount of total appropriations and the cash receipts for each account, and the amount for which warrants have been drawn against each account and the amounts of orders or contractual obligations incurred and chargeable against each account since the date of the last report. At the close of each fiscal year, the board secretary shall present to the board a detailed report of its financial transactions during such year and file a copy with the county superintendent on or before August 1 of each year.

In accordance with *N.J.S.A.* 18A:17-36, the treasurer shall report to the board monthly a detailed account of all receipts, the amounts of all warrants signed by him/her since the date of the last report and the accounts against which the warrants were drawn, and the balance to the credit of each account. At the close of each fiscal year, the treasurer shall present an annual report showing the amounts received and disbursed for school purposes during said year and file a copy with the county superintendent on or before August 1 of each year.

The monthly board secretary and treasurer reports are to be reconciled on a monthly basis.

**Cash reconciliation**

The cash accounts must be reconciled. Reconciliation of payroll and interest accounts are to be made in all charter schools maintaining such accounts and must be permanently recorded and filed for future reference. The auditor must verify the reconciliation of all cash accounts of the charter school.

Bank reconciliation statements are not required to be exhibited in the audit report. Workpapers must be available for review upon request.

**Petty Cash Funds**

*N.J.A.C.* 6A:23-2.9 states "Pursuant to the provisions of *N.J.S.A.* 18A: 19-13, a charter school board of trustees may establish on July 1 of each year, or as needed, a cash fund or funds for the purpose of making immediate payments of comparatively small amounts".

To be in compliance with the administrative code, the board must establish the amounts authorized for each fund, and set the maximum allowable individual expenditure. The board must designate custodians for each fund and must establish the minimum time period for the custodian to report on fund activity. Petty cash accounts must be closed out at year-end and unexpended cash deposited in the bank by the fiscal year-end.

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**Summer Payment Plans**

*N.J.S.A.* 18A:29-3 authorizes a charter school board of trustees to establish a Summer Payment Plan which will provide for withholding 10 percent of the salary of 10-month employees during the academic year. *N.J.A.C.* 6A:23-2.10 states “The charter school board of trustees shall ensure that the amount withheld earns interest and is available to the employee either at the end of the academic year or in installments prior to September 1.”

**SAS #70 Reports**

Depending upon the nature of the services provided, AICPA Statement on Auditing Standards (SAS) #70 (as amended by SAS #88) reports may be required from software vendors, payroll service vendors, educational management service vendors and other service organizations. SAS #88 clarified SAS #70 by stating that SAS #70 is applicable if an entity obtains services from a service organization that are part of the entity’s information system. SAS #88 explains what constitutes “part of the entity’s information system”. If SAS #70 is applicable, the service organization auditor would issue one of two types of reports, depending on circumstances and requirements:

- Type I – Report on Policies and Procedures Placed in Operation. This report may be an effective and efficient way for the charter school auditor to gain an understanding of the internal controls of the service organization.
- Type II – Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness. This report includes a description of the tests of operating effectiveness and the results of those tests. If the controls are present and operating effectively, the charter school’s auditor may choose to assess control risk below the maximum for financial statement assertions related to service organization transactions. This is a decision made by the charter school auditor.

Auditors are advised to review Chapter 4, Field Work Standards for Financial Audits, of the *Government Auditing Standards* (Yellow Book 2003 Revision) available electronically at the web site: <http://www.gao.gov/index.html> for further guidance on internal controls.

**Third Party Disbursements**

*N.J.S.A.* 52:27D-20.1 Contracts for third-party disbursement services, gave the Local Finance Board, in consultation with the Commissioner of Education, the authority to adopt regulations permitting charter school boards of trustees to contract with third-party disbursement service organizations in order to make payments and execute financial transactions for those purposes.

Third party disbursement rules were approved and are effective May 19, 2003, and found in *N.J.A.C.* 5:30-15 et seq. Charter school boards of trustees are advised to review the rules prior to engaging a third party disbursement organization. *N.J.A.C.* 5:30-17 et seq., Electronic Disbursement Controls for Payroll Purposes can be found at <http://www.state.nj.us/dca/lgs/rules/rulesmenu.shtml>.

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**Investments**

Several statutes govern permissible investment of school monies by New Jersey charter schools. *N.J.S.A.* 18A:17-34 gives the treasurer of the charter school the authority to deposit school monies in any bank or banking institutions of this State designated as a depository of school monies. Under *N.J.S.A.* 17:9-41 et seq., the Governmental Unit Deposit Protection Act (GUDPA), a charter school may deposit public funds in a public depository if such funds are secured in accordance with GUDPA. This statute defines a public depository as:

“a State or federally chartered bank, savings bank or an association located in this state or a state or federally chartered bank, savings bank or an association located in another state with a branch office in this state, the deposits of which are insured by the Federal Deposit Insurance Corporation and which receives or holds public funds on deposit.”

*N.J.S.A.* 18A:20-37 provides for the specific types of securities that the board of trustees can authorize to be purchased and sets forth general investment practice requirements. *N.J.S.A.* 18A:20-37 regarding charter school investments was amended by Chapter 148, P.L. 1997, which was signed into law on June 30, 1997. While the types of securities and requirements are too extensive to list, the statute includes governmental money markets funds and bonds or other obligations having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investments in the Department of Treasury for investment by school districts. The Division does not publish a listing of approved investments, but charter schools may request approval of a specific security by letter sent to the following address:

Director  
Division of Investments  
P.O. Box 290  
Trenton, NJ 08625

The Department of Education does not have the authority to determine compliance with GUDPA or review and approve the types of securities a charter school can utilize. Charter schools should consult with charter school counsel and direct any questions on the permissibility of a specific security pursuant to *N.J.S.A.* 18A:20-37 to the Division of Investments in the Department of Treasury at the above address.

Further information on GUDPA or on banking institutions may be found at the department of Banking and Insurance web site <http://www.state.nj.us/dobi/gudpa.htm>. A charter school which is unsure whether the bank/institution is certified as a depository should request from the bank/institution a copy of the “Notification of Eligibility” or may contact the Department of Banking and Insurance.

Charter Schools were required to implement GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools,” effective for fiscal years ending in 1998. This statement establishes fair value accounting and financial reporting standards for certain types of investments held by governmental entities other than external investment pools. This should have a limited impact on charter schools. For government entities other than external investment pools, this statement establishes accounting and financial reporting standards for investments in participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt securities, and equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

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The implementation of GASB Statement No. 31 does not supersede the required disclosures currently included in the CAFR in accordance with GASB Statement No. 3. “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.” It represents a change to the method at which investments are valued for accounting and financial reporting and provides for additional disclosures regarding the valuing of investments.

GASB Statement No. 40, “Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3” is effective for financial statements for periods beginning after June 15, 2004 and states:

“Disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments... and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3”. Statement 40 “is designed to inform financial statement users about deposit and investment risks that could affect a government’s ability to provide services and meet its obligations as they become due.” The reduction of existing custodial credit risk disclosures follow from federal banking reforms adopted since the release of Statement 3.”

Charter school auditors should refer to the Statement for further understanding and for illustrations of disclosures.

**Revenues and Receipts**

Revenues accruing to the board of trustees for the period under audit must be verified. Receipts for the year and accounts receivable at the close of the year must be verified as to source and disposition. Revenues must be delineated by type and recorded in the proper fund. Common revenues and the funds in which they are reported are included in *The Uniform Minimum Chart of Accounts Handbook for New Jersey Public School Districts (2003 Edition)*. The auditor must comment in detail on any irregularity in the method of handling receipts and revenues as a result of audit tests performed.

**Tuition**

The auditor should verify that the charter school charged no tuition for any student attending the charter school. Examination of before and after school care fees should be performed so as to determine that fees to students in these programs are only the reasonable and necessary amounts for the administration of these programs and must be accounted for the enterprise fund. If the excess revenues over expenditures of before and after school programs are being utilized to offset general fund expenditures, this excess is determined to be tuition fees charged to the students in these programs. The auditor should document this finding in the Auditor’s Management Report and make an appropriate recommendation for the discontinuance of this practice.

**Reporting On-Behalf payments**

GASB Statement No. 24 requires that an employer government recognize revenue and expenditures for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). In applying this accounting directive in New Jersey, charter schools are required to include in their CAFR as both a revenue and expenditure, both the pension contributions made directly to the TPAF by the state on their behalf as well as the reimbursed social security amounts related to their employees that are TPAF members. The department annually provides charter schools information on the amounts paid on their

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behalf for employer contributions to the TPAF on the DOE website at <http://www.nj.gov/njded/finance/fp/audit/0405/>.

Charter schools should prepare a schedule of the amounts reimbursed by the state for the current year FICA employer contribution for its TPAF members on an accrual basis. That is, the current year amount equals total cash reimbursement received during the current year less the prior year-end receivable amount plus the current year-end receivable balance. **The on-behalf payments will be included in the CAFR as non-budgetary revenue and expenditure items, similar to the reporting of assets acquired under capital leases.** Charter schools are not required to include these amounts in their annual school budgets.

### **Refunds**

Refunds on current year expenditures are a credit to the applicable expenditure line account. Refunds on prior year expenditures and sales of books, and manual training materials and products are miscellaneous income, not refunds. Proceeds from the sale of land, buildings and equipment are other financing sources.

### **Telecommunications Act of 1996 – Universal Service Fund (E-rate)**

The Schools and Libraries Universal Service Fund, known as the “E-rate” was created as part of the Telecommunications Act of 1996 to provide affordable access to modern telecommunications and information services to all eligible schools and libraries in the U.S. The School and Libraries Corporation (SLC) was established by the FCC to administer the Schools and Libraries Universal Service Fund. All public and private schools and libraries qualify for funding based on their level of economic disadvantage (based on the percentage of students eligible for the national school lunch program) and their location, rural or urban. Charter Schools will be notified regarding actual funding. The offset to the reduction in the expenditure is either to accounts receivable if a refund is due, or to accounts payable if unpaid at June 30, 2006. Additional information is available at the Department of Education, Office of Technology website at [www.state.nj.us/njded/techno/toc.htm](http://www.state.nj.us/njded/techno/toc.htm) and at the School and Libraries website at [www.sl.universalservice.org](http://www.sl.universalservice.org).

### **Cancellations**

Cancelled prior year contractual orders are reflected in the audit report as revenues. Cancellations of prior year reserve for encumbrances increase the amount available for expenditure in the current year.

### **Health Insurance Policies**

The department issued a hotline dated August 30, 1995 concerning audit issues/procedures regarding certain insurance policies held. At that time, we were seeking an opinion from the Office of the Attorney General on questions raised regarding the custody of funds and payment of claims. In response to that request, we were advised that the enactment of Chapter 74, P.L. 1995 authorized charter schools to enter into minimum premium insurance policies with insurance companies authorized to do business in the State although those policies may involve different cash management methods than those required by existing statute.

The hotline was issued after review of policy terms and discussions with both public school accountants and insurance company representatives. Based on that review, the following issues were identified:

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Charter schools with minimum premium policies commonly have three accounts with the carrier:

- 1) a termination reserve account
- 2) a claims account
- 3) a premium stabilization account

The termination reserve account generally represents funds earmarked for the charter school's liability for claims which have been incurred but not reported (IBNR), also known as the "run-off" liability. The IBNR liability amount is calculated annually by the carrier's actuaries and provided to the policyholder. The claims account is used for the payment of claims filed. The contracted monthly premium estimate is deposited into this account. The monthly deposit may or may not include the administrative fee paid to the carrier. In some cases, the fee is a separate remittance. The premium stabilization accounts are used as a mechanism to smooth insurance premium payments. Commonly, any funds remaining in the claims account at the end of the year are transferred to the premium stabilization account for use in future years in the event of "premium" increases. Premium stabilization funds are often attached to participating and fully funded policies in which rebates are based on a retrospective review of claims filed during the policy period. These funds (rebates) are maintained in an account, in the charter school's name, and are used to smooth future years' premium payments. Payments from these accounts for other than insurance premiums are prohibited and circumvent the budgetary process.

In the past, the aforementioned accounts may have not been reflected in the charter school accounting records or were inaccurately reported as fund balance. Public school accountants should review the terms of charter school policies and statements/monthly activity reports issued by the carrier. If the charter school has a minimum premium policy a confirmation should be issued to the insurance carrier regarding the following:

- The existence of and amount of June 30th balances in accounts in the charter school's name held on their behalf by the carrier\*
- Charter school liability for the IBNR claims at June 30th
- Charter school liability for claims that were filed but unpaid at June 30th
- Composition of the accounts (what are the types of underlying investments made on the charter school's behalf)\*
- Investment income earned during the year on charter school funds held by the carrier\*

Auditors may wish to obtain confirmation from the carrier that the expenditures made from the claims accounts were for valid claims if direct testing is not possible from charter school records. Items noted with an (\*) should be confirmed in situations where it appears that a premium stabilization account exists under a participating or fully funded policy.

The confirmed information as well as the balances in any accounts related to the policies that are held by the charter school itself should be used to determine the proper presentation in the CAFR. The assets (total of the June 30th account balances) will be compared to the related liabilities (total of the June 30th IBNR claims and claims in process at June 30th). Any excess assets should be included in the amount reported as unreserved general fund surplus. If the liabilities exceed the assets, the charter school's unreserved general fund surplus must also be considered. The accrual made for the claims should not put the general fund into a deficit position. That is, the total liabilities should be subtracted from the total of

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the June 30th unreserved general fund surplus plus the total assets. The amount of liabilities in excess of the total of surplus and assets should be shown as a liability in the charter school wide Statement of Net Assets and the June 30th general fund unreserved surplus reported as zero. For minimum premium policies, the current year expenditures reported for insurance premiums/claims should represent the total of the amount of claims and administrative fees paid in the current year related to the current year, the accrual for the unpaid claims in process, and the change in the June 30th balance in the IBNR liability between the current year and the prior year. For any type of policy, it must not include any excess premium payments transferred to a premium stabilization account.

The funds held by the charter school or the carrier on the charter school's behalf are included in the general fund balance sheet as cash, cash equivalents, or investments.

The June 30th general fund accounts payable balance should include the amount of claims in process as of that date. It should not include the IBNR liability. The IBNR liability should be reported in the general fund balance sheet an accrued liability labeled "Accrued Liability for Insurance Claims".

The notes to the financial statements should clearly disclose the terms of the policies and provide explanations of the related balance sheet accounts.

**Sale and Lease-back Contracts**

*N.J.S.A.* 18A:20-4.2 authorizes charter schools to enter into sale and lease-back contracts on certain instructional material (i.e. textbooks). The charter school can acquire through sale and lease-back textbooks and non-consumable instructional materials provided that the sale price and principal amount of the lease-back do not exceed the fair market value of the textbooks and instructional materials and that the interest rate applied in the lease-back is consistent with prevailing market rates or is less. The leaseback can be for any term not exceeding in the aggregate of five years.

Proceeds from the sale and lease-back of textbooks and non-consumable instructional material shall not be included in the calculation of excess undesignated general fund balance during the budget year in which they are realized.

**Fund Balance Classifications**

The proper presentation of fund balance is an important reporting issue. Charter schools should use the fund balance classifications reported at the end of the *General Fund Budgetary Comparison Schedule* (Exhibit C-1) for purposes of calculating excess surplus. Fund balance in this Schedule reflects the modified accrual basis with the exception of the last state payment. Charter schools must include a Recapitulation of Fund Balance at the end of this Schedule with sufficient detail for a reviewer to determine the nature of any reserve or designation. See the illustration at the end of this chapter and also the guidance in Section III-5 on Audsum.

Fund balance in the governmental funds *Balance Sheet* (Exhibit B-1) reflects the modified accrual basis and should be grouped under two main categories – reserved and unreserved. In the accrual basis *Statement of Net Assets* (A-1), there are three classifications of net assets: Invested in capital assets, net of related debt, Restricted net assets (with a line item for each fund in which the net assets are restricted), and Unrestricted. Auditors and charter school staff should refer to GASB 34, paragraphs 30 – 37 for further clarification of these classifications.



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*Auditor's Note* – No appropriation of surplus after June 30, 2006 is to be reflected in the June 30, 2006 balance sheet as designated for subsequent year's expenditures. The department recommends footnote disclosure in the CAFR.

Reserved fund balance classification should only be for encumbrances, or for state or other government imposed legally reserved fund balance restrictions. Beginning in 2003-04, all other legal reserves require Departmental review and approval. The request for approval should state the amount, source, purpose and legal basis for the reserve (i.e. why the funds are not available for appropriation in the subsequent year) and the fiscal year in which it will be appropriated. Charter Schools should submit requests to the Assistant Commissioner Finance no later than September 30 if approval is required for the audit period under review.

Fund balance – reserved for:

- The **reserve for encumbrances** represents that amount of fund balance related to orders issued in the current year that will be honored in the subsequent year. In general, for other than construction projects, that liquidation must be made within 60 to 90 days of year-end to be a valid reserve at June 30th. This should not include accounts payable, since those orders were charged as expenditures in the current year and should be included in the balance sheet as a liability. Separate lines are provided in the Audsum diskette for the reserve for encumbrances at fiscal year end for the general fund and capital projects fund. The department issued a Hotline on September 16, 2003 providing additional guidance on auditor reviews of encumbrances. Charter schools should not be encumbering goods and services that relate to the subsequent year. The Hotline is reproduced in Section I-8 of this Audit Program.
- The **reserved fund balance-legally restricted account**, which is shown in the reserved fund balance equity section, is used to report that portion of the general fund surplus that is legally reserved for specific purposes. In general, funds are legally restricted only when constraints placed on the use are externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. This would include reserves established for register audit recoveries and restricted appropriations such as unspent funds from:
  - 1) Approved separate proposals as outlined in *N.J.A.C. 6A:23-8.5*
  - 2) Capital outlay for a charter school with a capital outlay spending growth limitation adjustment in 2003-04 as outlined in *N.J.A.C. 6A:23-8.8*
  - 3) Sale/lease-back reserve *N.J.S.A. 18A:7F-7(e)*

Legal reserves that are for anything other than state imposed or other government imposed legal restriction must be approved by the Assistant Commissioner of Finance. Examples of state imposed legal restrictions include audited excess surplus, unspent separate proposals, legally established capital, and a reserve established for the sale leaseback of textbooks in the year the proceeds are realized. An example of other government imposed legal restrictions includes court ordered judgments. **The request for approval should be submitted by the charter school to the Assistant Commissioner of Finance by September 30, 2006 for the June 30, 2006 year.** The request should state the purpose and legal basis for the reserve (e.g., the specific "constraint imposed on the use by external parties or by laws or regulations of other governments). Approval will only be granted for those other legal obligations that are in conformity with GAAP.

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Under GAAP, few items would constitute a legal reserve. Per GAAP, the basic concept of a legal reserve is that it is not unilaterally established by the charter school and it cannot be removed with the consent of those imposing the restriction or through formal due process. Charter schools do not have the authority to advance fund (accumulate resources) for a potential future liability by setting aside an amount as a legal reserve. Loss contingencies are not legal reserves, but instead would be recorded as accrued liabilities if a loss is probable and reasonably estimable. For funds statements, only the amount due and payable with current resources is accrued. For the charter school-wide statements, the full amount is accrued. Contingent liabilities not required to be accrued should be disclosed in the notes to the financial statements. All significant facts with respect to the situation should be disclosed. GAAP guidance is available in the GASB Codification chapter “Claims and Judgments” (C50).

The notes to the financial statements must contain a discussion of all legally restricted balances, including the amount, source and fiscal year in which it will be appropriated. A separate line is provided in the Audsum data collection for legal reserves - general fund. These balances, if determined prior to the adoption of the budget, should have been anticipated in the 2006-07 “School District Budget Statement” and line 1660, “Amount Budgeted in FY 2006-07” in column 6, General Fund (Reserved) Legal Reserves of the Recapitulation of Balances. Amounts not anticipated in the 2006-07 budget must be shown as a legal reserve in the June 30th CAFR and appropriated in the 2007-08 -budget.

**Fund Balance – Unreserved**

All other fund balance is considered **unreserved**. Charter schools may reflect management’s intent for use of the unreserved fund balance as separate lines in the equity -section of the balance sheet under the heading unreserved fund balance. Each designation should be explained in the notes to the financial statements. All other unreserved fund balances should be presented as unreserved – undesignated. The amount of unreserved fund balance that has been included in the upcoming year’s general fund budget as budgeted fund balance should be reported in the unreserved fund balance equity section as **designated for subsequent year’s expenditure**. If the budgeted fund balance amount included in the certified budget contains an amount that has been shown in the reserved fund balance section of the balance sheet, do not include it as part of the unreserved designated for subsequent year’s expenditure amount. **Separate lines are provided in the Audsum data collection for unreserved – undesignated general fund balances and unreserved fund balance that is designated for subsequent year’s expenditure. Include on the designated fund balance line only those amounts which were included in the 2006-07 certified budget as budgeted fund balance on lines 121, 122 and 123 that have not already been included on a reserved fund balance line. Included in the unreserved-undesignated line all other unreserved fund balance.**

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**FUND 20 - SPECIAL REVENUE FUND**

**TPAF Reimbursement**

*N.J.S.A.* 18A: 66-90 requires that each charter school reimburses the state for the employer share of pensions, group life insurance, FICA and other benefits of the Teachers' Pension and Annuity Fund (TPAF) for TPAF members carrying out and paid from federally funded programs.

Charter schools were given specific guidance in a hotline dated June 29, 1993 on accruing a liability for the TPAF Pension and Social Security related to salaries charged to federal grants. The reimbursement must be made by the September 30th following the fiscal year end. Auditors are required to certify the accuracy of the reimbursement via their signature on the reimbursement form submitted by the charter school with the actual reimbursement. If submission of the reimbursement form is performed prior to the completion of audit procedures, the form may initially be submitted without the required auditor signature and a revised form reflecting the auditor signature may be subsequently submitted.

Auditors should include in their audit procedures a test of the biweekly reimbursement forms filed electronically with the department for all TPAF employees.

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**FUND 30 - CAPITAL PROJECTS FUND**

**Capital Projects Fund**

The proper accounting procedures related to capital projects are included in Chapter 11 of the GAAP Technical Systems Manual.

No transfer may be made under *N.J.S.A.* 18A:22-8.2 from appropriations or surplus accounts for:

- a. Capital reserve account
- b. Items classified as general fund except to other items so classified or to the capital projects fund to supplement the proceeds from lease purchase agreements

Transfers from appropriations or surplus accounts may be made within the general fund. When specifically approved by the Commissioner, charter schools may transfer surplus from the general fund to the capital projects fund to supplement the proceeds from a lease purchase agreement upon application to and a formal finding by the Commissioner that the transfer is in the best interests of both the students and districts of the charter school after consideration of alternative correction actions.

**Overexpenditures**

A number of situations have been reported to the department where charter schools overexpended a capital projects fund authorization and in some cases used unauthorized methods to fund the overexpenditure. In managing capital projects, the Business Administrator must certify the availability of funds before the board can award contracts and/or a change order on a capital project that increases the cost of the project. (*N.J.A.C.* 6A:26-4.9(a)(3)). In no instance can approval of change orders increase the cost of the project above the bond referendum approved amount.

Overexpending a capital project authorization has serious consequences. Under the New Jersey Code of Criminal Justice, it is a crime for a public official or employee to knowingly disburse, order, or vote for the disbursement of moneys or incur obligations in excess of appropriations or an amount limited by law (See *N.J.A.C.* 6A:26-4.5 and Division of Finance Policy Bulletin 200-11 issued July 1991). The Department will notify the Office of the Inspector General and may notify the Director, Division of Criminal Justice if an over-expenditure/deficit is detected in a capital project. A charter school overexpending the capital projects fund may also be subject to a reduction in its state aid and other actions pursuant to *N.J.A.C.* 6A:23-2.11 and *N.J.A.C.* 6A:26-14.1 et seq. if applicable.

In the event that charter school overexpended capital projects funds or otherwise violated the procedures described by *N.J.A.C.* 6A:23-2.11 and Division of Finance Policy Bulletin 200-13 issued October 1992, auditors must include appropriate comments and recommendations and the amount in the Auditor's Management Report.

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**FUND 40 – DEBT SERVICE FUND**

This section not applicable to charter schools

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**FUND 50 – PERMANENT FUNDS**

The permanent fund is a new governmental fund under GASB 34 financial reporting. It is used to report resources that are legally restricted so that only the earnings they generate, and not the resources themselves, may be used to support the charter school's programs. Resources reported as non-expendable trust funds prior to GASB 34 should be reported as a permanent fund if the charter school has an ownership interest in the assets.

Examples of resources accounted for and reported in a permanent fund include:

- The charter school has received a large bequest from the estate of a wealthy benefactor. The corpus of the donation cannot be spent, but instead is required to be invested to provide earnings that are restricted for a special use identified by the benefactor, e.g. maintenance of the libraries.
- A local resident has donated investments with the stipulation that only the earnings of the investments may be used to purchase musical instruments for the schools.

A permanent fund does not include private-purpose trust funds, which are used to report situations in which the charter school is required to use the principal or earnings for the benefit of those outside the charter school (individuals, private organizations, or other governments), not for charter school purposes. See II-60 for treatment of trust funds in the fiduciary fund section of the financial statements.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 50 – PERMANENT FUNDS**

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**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**Proprietary Funds**

Proprietary funds are used to account for charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a charter school regardless as to whether the operations include services provided to outside parties that are offset by revenues. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Additional guidelines for charter schools using the internal service fund to account for shared services are outlined in *N.J.A.C. 6A:23-2.13*.

There is little change in the proprietary financial statements resulting from GASB 34. Capital contributions are not reported as a separate component of net assets in the *Statement of Net Assets*, but continue to be reported as such in the funds statements. Charter school staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements.

**Enterprise Funds:**

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. Examples of enterprise funds in New Jersey Charter Schools are those established to account for the food services program of the charter school and latch-key programs (before/after school programs). **All the expenses of these operations are accounted for in the funds with any board of trustee contribution, shown as a transfer to cover deficit in the general fund and as an operating transfer in the enterprise fund.**

***Auditor's Note*** – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the Enterprise Fund. The department has included an edit in the Audsum diskette to identify any discrepancy between the reported amounts and recommends completing the Audsum diskette prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund column of the *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances* and an operating transfer out on the *C-1 General Fund Budgetary Comparison Schedule*.

**Food Service - Enterprise Funds**

Boards of trustees may contract with food service management companies (FSMC) to equip, supply and operate cafeterias without profit to the charter school pursuant to *N.J.S.A. 18A: 33-3*. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations pursuant to *N.J.S.A. 18A: 18A-42.1*. All charter schools rebidding their FSMC Contract must rebid their new contract pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1 et seq.* as amended .

The most widely used contract method in New Jersey is referred to by the *Accounting Guide for Government Contracts* as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board is liable

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

for the reimbursement of all costs incurred. Regardless of the contract method, the charter school management is considered the School Food Authority. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the School Food Authority.

As School Food Authorities, daily cash sales and State and Federal reimbursements are school moneys and subject to the State's school laws. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties but they are not permitted under state law to administer or hold school funds.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from daily cash sales and State and Federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of this state designated by the charter school management as a depository of school moneys. Such funds may be deposited in the Board's general operating account. A separate food service account is not required. (*N.J.S.A. 18A: 17-34*)

Receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records, in accordance with the *Uniform Minimum Chart of Accounts (2003 Edition)*.

When the board of trustees budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the general fund.

2. The board of trustees may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (*N.J.S.A. 18A: 19-1, 2, 4 and 4.1*)
3. Loans or advances from the board to a food service management company are prohibited. All claims and demands must state that articles have been furnished or services rendered before payment can be made. (*N.J.S.A. 18A: 19-3*)
4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments which are not made within the negotiated dates.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

5. The food service management company must provide itemized claims for services and goods to the charter school management for reimbursement.
  - a) The food service management company should process payroll data in such a way that the charter school management can reimburse it in time for payroll checks to be issued. A one-week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.
  - b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the charter school or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the charter school management and for the annual audit.

When the food service management company purchases specifically for the charter school, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (sample 1 in Section II-50.9). If the food service management company purchases food in bulk for a number of charter schools, it may use the above method allocating invoice amounts between charter schools based on the percentage of each charter school's student enrollment (or participation) to the total enrollment for all schools (sample 2 in Section II, 50.10). It may also use a per meal cost calculation based on the total amount of the invoices divided by the total meals served to all charter schools. Each charter school's pro-rata share of the costs would be the per meal cost multiplied by the meals served in each charter school (sample 3 in Section II, 50)

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the charter school management and for the annual audit.

6. The charter school board of trustees and the food service management company should work closely to minimize the time of reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest paid is an allowable cost of the contract in such situations.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the charter school. Auditors must include appropriate comments and recommendations in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAS #70 Reports**

In accordance with SAS #70, as amended by SAS #88, charter school auditors may evaluate the internal controls of a food service management company by relying upon the opinions of a "service auditor" of the food service management company's internal control system. To that end, Charter Schools must only contract with food service management companies that can provide an audit opinion on said company's system of internal control. Beginning in 1994-95, all food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification.

Date Issued 6/06

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAMPLE 1**

Foodland Food Services  
123 Broad Street  
Anytown, NJ 08000  
609-123-4567

October 15, 200X  
Invoice #123456

Any Charter School  
Highland Street  
Old Town, NJ 08111

For reimbursement of costs incurred related to the provision of food services for the Any Charter School during the month of September 200X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/0X	Bakeland	\$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
Total			<u>\$13,006.79</u>

Please remit the above amount by November 15, 200X. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief  
President  
Foodland Food Services

Date Issued 6/06

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAMPLE 2 (1 of 2)**

Foodland Food Services  
123 Broad Street  
Anytown, NJ 08000  
609-123-4567

October 15, 200X  
Invoice #123456

Any Charter School  
Highland Street  
Old Town, NJ 08111

For reimbursement of the AnyCharter School pro-rata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 200X

\$3,107.21

Please remit the above amount by November 15, 200X. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief  
President  
Foodland Food Services

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAMPLE 2 (2 of 2)****NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION**

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200x	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1056.29
12555X	9/2/200x	Murray's	689.23	493.31	972.62	1,343.48	3498.64
		Meats					
431182	9/3/200x	Polly's	176.45	126.29	249.00	343.94	895.68
		Produce					
6988	9/7/200x	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
12682D	9/7/200x	Murray's	692.86	495.91	977.75	1,350.55	3,517.07
		Meats					
431906	9/13/200x	Polly's	112.21	80.31	158.34	218.71	569.57
		Produce					
219601	7/13/200x	Dan's Dairy	477.38	341.68	673.66	930.52	2,443.24
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63

**No. of Students  
Participating**

**Percentage**

New City - 630	19.7%
Upper - 452	14.1%
Lower - 889	27.8%
Middle – 1,230	38.4%
Total – 3,201	100.00%

Date Issued 6/06

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAMPLE 3 (1 of 2)**

Foodland Food Services  
123 Broad Street  
Anytown, NJ 08000  
609-123-4567

October 15, 200X  
Invoice #123456

Any Charter School  
Highland Street  
Old Town, NJ 08111

For reimbursement of the Any Charter School pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 200X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 200X. The invoices listed on the per meal cost calculation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chief  
President  
Foodland Food Services



**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**SAMPLE 3 (2 OF 2)**

## NEW CITY CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	Invoice Amount
6932	8/31/200x	Bakelund	\$ 2,398.61
12555x	9/2/200x	Murray's Meat	6,779.38
431182	9/3/200x	Polly's Produce	796.54
218812	9/7/200x	Dan's Dairy	877.32
6988	9/7/200x	Bakelund	531.89
12682X	9/7/200x	Murray's Meat	153.90
431906	9/13/200x	Polly's Produce	591.83
219601	7/13/200X	Dan's Dairy	877.32
Total			\$ 13,006.79

<u>School District</u>	<u>No. of Meals</u>	<u>Price/Meal</u>	<u>Amount</u>
New City	1,598	\$ 2.45	\$ 3,910.60
Upper	1,299	2.45	3,178.89
Lower	1,243	2.45	3,041.85
Middle	<u>1,175</u>	<u>2.45</u>	<u>2,875.44</u>
Total	5,315	\$ 2.45	\$13,006.79

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**Child Nutrition Program Requirements**

The Bureau of Child Nutrition Programs is revising its audit policy regarding the review of School Food Services to comply with OMB Circular A-133 Revised (OMB A-133) published in the Federal Register, June 27, 2003. OMB-133 was revised to raise the audit threshold for all recipients, including state and local governments, to \$500,000. The provisions of OMB A-133 are effective for fiscal years ending after December 31, 2003.

Charter schools and their auditors should also refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B-6) on the NJDOE web site. <http://www.state.nj.us/njded/finance/fp/gasb34/>. When a charter school has more than two programs in the Proprietary Fund, combining statements should be prepared. Please refer to the sample format for School Food Service Fund Exhibit F-1, F-2 and F-3 in Financial Reporting for New Jersey School Districts, A Sample Comprehensive Financial Report, The CAFR (Issued August 1999) for combining statements. The Proprietary Fund combining statements follow the same format but are labeled G-1, G-2 and G-3.

Auditors should report on the condition of the financial transactions and statistical records of the School Food Service Fund, including a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, and eligibility applications. **Determine whether there are controls providing reasonable assurance that all meals reported to the state agency for reimbursement are based on accurate counts and are served to eligible children.**

**Please Note: Effective with October 2003, monthly reimbursement claims were entered on-line using the Child Nutrition Program's website via the myNewJersey portal. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may request these reports from the charter school.**

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
  - a) ELIGIBILITY APPLICATIONS - Review eligibility applications to evaluate completeness of required information and verify eligibility determination. Any incomplete free or reduced price applications should be given to the determining official for completion. Incorrectly determined applications should be placed in the correct category, and the resulting overclaim/underclaim must be identified on the Schedule of Meal Count Activity. Additionally, audit findings related to the free and reduced eligibility determination must be reported in the Auditor's Management Report (AMR) in the School Food Service section. Free applications that are not available or incorrectly determined must also be cited as an exception under Demonstrably Effective Program Aid, Early Childhood Program Aid, and Instructional Supplement Aid where applicable.

Applications may also have been determined through the Direct Certification Process. Please refer to June 2005 Memo, "Direct Certification for Free Meal/Free Milk Benefits for School Year 2005-06.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

Schools participating in Provision 1 or 2 are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the Memo, "Application Process for Provisions 1 and 2 .

**Household Application for Free and Reduced Price Meals and/or Milk**

- Effective with school year 2005-2006, single or individual child (eligibility) applications are obsolete. Household applications are the only eligibility applications in use for this school year. Since a foster child is considered a family of one, he/she should be the only child listed on a separate household application. For example, a family with five children (3 of their own and 2 foster children) is required to complete three household applications – one application inclusive of their three children, plus individual applications for each of the two foster children.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the Local Educational Agency (LEA) attend a Determining Official Workshop).
- Household applications must be on letter-size paper.
- Eligibility determination of a household application is effective for the entire school year with the exception of an income listed as zero. Zero income applications are placed on temporary status.
- Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, or monthly.
- There is a new section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. Charter Schools must designate an application liaison/coordinator. The application liaison/coordinator is the only approved source of supporting documentation for the application of homeless, migrant or runaway children.

MEAL COUNT RECORDS - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement vouchers. Edit Check Worksheet(s) must be completed for every reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and overclaim/underclaim identified on the Schedule of Meal Count Activity.

Unsupported reimbursement must be cited as a finding of noncompliance and a financial assessment identified on the Schedule of Meal Count Activity (Overclaim/Underclaim). Provide pertinent detail, i.e. school, month.

2. Verification Regulations issued by the United States Department of Agriculture require pricing sponsors of the National School Lunch and School Breakfast Programs to verify a minimum

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

number of approved applications on file as of **October 1<sup>st</sup>** of each school year. Sample selection and verification may begin earlier based on projections done by school officials.

- **Sample Selection Method:**

- a) Use all approved applications on file at October 1, 2005 to determine the appropriate sample size and to select the applications for verification (audit testing). Note that sample size depends on the number of paper applications, NOT the number of children represented.
- b) The required sample size is the LESSER of:
  1. 3% of all approved applications\*, or
  2. 3,000 approved “error prone” applications

\*Applications included in the sample must be selected from the pool of “error prone” applications, to the extent possible. If there are not a sufficient number of “error prone” applications to complete the sample, the remaining applications should be randomly selected from the pool of “non-error prone” applications.

- c) “Error prone” applications are those applications characterized by:
  - Annual income within \$1,200 of the annual income guidelines
  - Monthly income within \$100 of the monthly income guidelines
  - Twice a month income within \$5 of the twice a month income guidelines
  - Every two weeks income within \$50 of the every two weeks income guidelines
  - Weekly income within \$25 of the weekly income guidelines.
- c) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1<sup>st</sup>, 2005. ( $340 \times 3\% = 10.2$  applications; sample size must be 11).

Note to auditor: Internal verification procedures must require that each application selected for internal verification be reviewed for accuracy by charter school personnel other than the individual who made the initial approval determination. Pursuant to this verification process, approved applications should be classified as an “approved application” and be considered in the audit sampling pool. Incorrectly approved applications should have been removed from the pool of “approved applications”; the eligibility status changed, a formal notification sent to the family of a change in eligibility, and instructions for resubmission of an application with accompanying income documentation.

All verification activity must be completed by **November 15** of each school year. The School Food Authority (SFA) must electronically report the results of their verification activities to the Bureau of Child Nutrition Programs by March 1, 2006. Failure to complete verification will result in reimbursement being withheld by the Bureau. The auditor's review of eligibility applications should include a review of the verification file to ensure that this process was established

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

4. Net cash resources may not exceed three months average expenditures. In the event that net cash resources exceed three months average expenditures for the School Food Authority's nonprofit school food service, the State Agency may require the School Food Authority to reduce children's prices, improve food quality or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:15)

Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include but are not limited to cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.

5. The auditor should comment on whether Food Distribution Program (formerly U.S.D.A.) commodities were received. If the charter school is utilizing a vendor to provide meals, review evidence that the market value of Food Distribution Program donated commodities was credited on monthly invoice statements.
6. Auditors should verify that financial arrangements and other provisions in the Food Service Management contract have been complied with; if not, cite exception.
7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after the 60 days without proper verification. However, payment can be considered if the underclaim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims (identify in the Schedule of Meal Count Activity) as a result of late revisions.** Please note that such payment is subject to approval.
8. The following memorandums and attachments for the school year 2005-06 are available at charter school offices to be referenced by the auditor:
- a) March 1, 2005 – SFAs Considering Employing a FSMC for School Year 2005-06
  - b) March 1, 2005 – SFAs Renewing FSMC Contracts for 2006
    - 1 - Index rates/fees
    - 2 - Early Approval of Food Service Management Company (FMSC) Addendum
    - 3 - Directory of Registered Food Service Management Companies
  - c) March 2005 – Child Nutrition and WIC Reauthorization Act: Policy Implementation and Information Sessions
  - d) 2005 Seamless Summer Option Application Documents
  - e) June 2005 – Direct Certification for Free Meal/Free Milk Benefits for School Year 2005-06
  - f) June 2005 – School Year 2005-2006 School Nutrition Programs Application Packet Materials.

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

- g) June 2005 – Allowable Costs for Meals in Accordance with *N.J.A.C. 6A:23-r.5(a)(20)*
- h) July 2005 – Fiscal Year 2006 Verification Workshop Schedule/Guidance (Forms #273/273)
- i) July 2005 – Annual Application Process for Provisions I and II
- j) August 2005 – Public Reimbursement Rates for Child Nutrition Programs/Maximum Meal and Milk Prices
- k) November 14, 2005 – Food Service Privatization: Securing FSMC Contracts
- l) January 2006 – After School Snack Program, On-Site Review
- m) January 2006 – **Revised** Annual National School Lunch Program On-Site Review
- n) February 2006 – Verification Summary Report

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

**REIMBURSEMENT RATE BREAKDOWN**

**NATIONAL SCHOOL LUNCH RATES**

REGULAR RATE			
SFA's w/less than 60% of Free and Reduced Lunch			
	FEDERAL	STATE	TOTAL
FREE	2.32	0.10	\$2. 42
REDUCED	1.92	0.10	\$2.02
PAID	0.22	0.04	\$0.26

HIGH RATE (EXTRA 0.02 CENTS)			
SFA's w/more than 60% of Free and Reduced Lunch			
	FEDERAL	STATE	TOTAL
FREE	2.34	0.10	\$2.44
REDUCED	1.94	0.10	\$2.04
PAID	0.24	0.04	\$0.28

**SCHOOL BREAKFAST PROGRAM**

REGULAR RATES			
	FEDERAL	STATE	TOTAL
FREE	1.27	0.10	\$1.37
REDUCED	0.97	0.10	\$1.07
PAID	0.23	0.10	\$ .33

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.51	0.10	\$1.61
REDUCED	1.21	0.10	\$1.31
PAID	0.23	0.10	\$ .33

**AFTER SCHOOL SNACKS**

AT RISK/ AREA ELIGIBLE	0.63
NON- AREA ELIGIBLE	
FREE	0.63
REDUCED	0.31
PAID	0.05

**SPECIAL MILK PROGRAM**

FREE	Average cost per half pint * Based on Individual SFA's costs
PAID	0.155

**Commodity Value \$.175**

**\*SFA'S=SCHOOL FOOD AUTHORITIES**

**SECTION II – SPECIFIC COMPLIANCE**  
**FUND 60 - PROPRIETARY FUNDS**

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**SECTION II – SPECIFIC COMPLIANCE**  
**PROPRIETARY FUNDS**  
**FUND 70 – INTERNAL SERVICE FUNDS**

**Internal Service Funds**

Charter schools should use internal service funds to account for the financing of goods or services provided by one department or office to other departments or offices of the charter school, or to other school boards of education and governmental units, on a cost-reimbursement basis. Internal service funds are cost accounting and distribution entities, and are intended to "break even" annually and/or over a period of years (*N.J.A.C. 6A:23-2.13*). The use of an internal service fund does not provide additional revenue or expenses to the charter school but acts as a means to document the sharing of the costs. Use of this fund replaces the prior common practice of "refunding" expenditure accounts for shared services. Some activities that may be accounted for in an internal service fund are central purchasing and warehousing, central motor pools, central printing and duplicating or central data processing departments.

Arrangements for sharing the costs of administrative and other non-instructional personnel and related costs under joint agreements where the employees remain under the employment of one lead school would also be accounted for in an internal service fund in the records of the lead school. Each of the "sharing" schools, including the employing school, should reflect their agreed-upon portion of the costs in the general fund. For the employing school, that cost would be budgeted as salary expenditure. The "sharing" schools would account for the payments made to the lead school as a contracted service under the appropriate function. If the shared employees have employment contracts with each of the schools involved, each school's share of the employees' salary and related costs would be budgeted and expended against the appropriate salary and other accounts and there would be no need for any of the schools involved to establish an internal service fund.

- The charter school board of trustees providing the shared service shall allocate the costs on a user charge basis to all participating entities on an annual basis at a minimum.
- User charges should be reported by entities or funds being serviced by the Internal service fund in the applicable line item account for the goods or Services received.
- Sales and purchases of goods and services for a price approximating their External exchange value should be reported as revenues ("Services Provided To Other Funds"). The total user charges should approximate the total costs of the internal service fund.

**Self-insurance (Risk Financing):**

Self insurance is the practice of a charter school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss. GASB Statement Number 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB 30, *Risk Financing Omnibus*, provides the accounting and financial standards for risk financing and self-insurance related activities. If a charter school accounts for all of its risk financing activities in a single fund, it is recommended that the Internal Service Fund be used. GASB Statement 10 paragraph 63 permits either the use of the internal service fund or the general fund for such purposes. The NJDOE has recommended using the internal service fund. The Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting* (the "Blue Book") references GASB 10 paragraph 66 and states on page 101, "If a government chooses to use an internal service fund to account

**SECTION II – SPECIFIC COMPLIANCE**  
**PROPRIETARY FUNDS**  
**FUND 70 – INTERNAL SERVICE FUNDS**

for its risk financing activities, interfund premiums should be classified as service fund to account for its risk financing activities, interfund premiums should be classified as interfund services provided (a reciprocal interfund activity). As a result, premiums received by the internal service fund should be reported as revenues. Unless excess revenues are justified, premiums in excess of probable and measurable losses incurred must be reported as an operating transfer (a nonreciprocal interfund activity) rather than as revenue.”

The Internal Service Fund reports on the accrual basis and per GASB 10 paragraph 53 should limit liability recognition to probable and measurable losses as of the balance sheet date. For example, worker’s compensation losses that have been incurred but not reported (event occurred, but no claim has been asserted at the balance sheet date), are accrued if a reasonable estimate of the loss can be made.

**SECTION II – SPECIFIC COMPLIANCE– FIDUCIARY FUNDS**  
**FUND 80 – TRUST FUND**

Assets that are held in a trustee or agency capacity for external parties and that cannot be used to support the government's own programs are reported as fiduciary funds. Trust and agency funds are used to account for resources held and administered by a charter school when it acts in a fiduciary capacity. Trust funds may be distinguished from agency funds by the existence of a trust agreement, a higher degree of management involvement, and a longer holding period of the fund resources. Agency funds report resources held by the reporting government in a purely custodial capacity.

Fiduciary trust and agency fund activity is not included in the charter school-wide financial statements (the Exhibit A series) but is reported in the fund statements (Exhibit B7 and B8) as described below. Inclusion of the trust or agency fund resources in the school-wide financial statements might mislead the reader about the financial position of the charter school since these funds are not available for use by the charter school.

**Trust Funds:**

GASB No. 34 eliminates the terminology of expendable and nonexpendable trust funds and identifies three classes of trust funds:

- Pension and other employee benefit trust
- Investment trust funds
- Private-purpose trust funds

Pension and other employee benefit trust funds account for resources held in trust for the members and beneficiaries of the charter school's employee benefit plans. Investment trust funds report the resources of a combined investment effort among charter schools. Private-purpose trust funds encompass other trust fund arrangements for which principal and income benefit individuals or agencies outside of the charter school. Examples of a private purpose trust fund are a scholarship fund or a fund that reports the resources of an awards program, funded by contributions from local businesses to provide small cash awards to qualifying high school seniors.

Charter schools need to evaluate those activities that have been reported as trusts in the pre-GASB 34 Model to determine if they are trusts for purposes of financial reporting under GASB 34. In some instances, charter schools will need to include the former expendable trusts in the special revenue fund, i.e. if the resources actually benefit the charter school and are expendable. When funds are legally restricted to the extent that only the earnings, and not the principal, may be used to benefit the charter school, those resources are reported in the permanent fund.

There are two required trust fund financial statements under GASB No. 34:

- *Statement of Fiduciary Net Assets*
- *Statement of Changes in Fiduciary Net Assets*

Refer to the *Statement of Fiduciary Net Assets* and the *Statement of Changes in Fiduciary Net Assets* (Exhibits B-7 and B-8), the sample fiduciary fund statements, in the Sample Statement section on the NJDOE web site: <http://www.state.nj.us/njded/finance/fp/gasb34/>.

**SECTION II – SPECIFIC COMPLIANCE– FIDUCIARY FUNDS**  
**FUND 80 – TRUST FUND**

**Unemployment Trust Fund**

When a charter school elects the reimbursement method (also called the payment in lieu of contributions or pay as you go, i.e., the state pays the claim and invoices the charter school for the amount due) for unemployment compensation, the accumulation of funds is reported in a trust/fiduciary fund in the CAFR.

Effective January 1, 1999, a portion of the employee's deductions for unemployment compensation are required to be deposited in the unemployment Compensation Insurance Trust Fund. This applies to charter schools that fund New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". The percentage breakdown for the worker contributions is as follows:

**As of July 1, 2004**

Worker Unemployment Contributions:

0.125% Submit with Quarterly Contributions Report  
0.300% *Deposit into individual trust account*  
 0.425%

Charter schools that fund New Jersey Unemployment Compensation Insurance under the "Contributory Method" (Agency fund) will continue to remit the entire employee deduction to the Commissioner of Labor. If you have questions that pertain to withholding and/or filing, it is recommended that you contact the New Jersey Department of Labor at (609) 633-6400.

**Section 457 Deferred Compensation Plans**

*N.J.S.A. 18A:66-127 through 129 as amended by P.L. 2003, c.155* permits boards of trustees to establish tax-sheltered deferred compensation plans under section 457 of the federal Internal Revenue Code. Additionally, the act grandfathers any section 457 plan established by a board of trustees prior to the effective date of this law.

*GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as amended by GASB Statement No. 34 provides authoritative guidance on the reporting of 457 plans. Generally, the charter school Board of trustees must determine whether or not the Board is acting in the capacity as trustee for the plan. Factors such as whether the Board has retained the power to make investment decisions for the plan, approves loans made from plan assets, and approves withdrawals for unforeseen emergencies suggest the Board is acting in the capacity of a trustee.

If the Board is acting as a plan trustee, then the assets of the plan are reported in the fiduciary fund under the category "pension and other employee benefit trust funds." If the charter school has established a 457 plan and does not hold the assets in a trustee capacity, do not include the assets in the charter school's fiduciary fund financial statements.

**SECTION II – SPECIFIC COMPLIANCE**  
**FIDUCIARY FUNDS**  
**FUND 90 – AGENCY FUNDS**

Agency funds report resources held and administered by the reporting charter school in a purely custodial capacity for other governments, organizations and/or individuals. These funds typically involve only the receipt, temporary investment, and remittance of the resources to external parties. Common examples of agency funds are payroll and student activity funds.

Agency funds are included in a separate column in the *Statement of Fiduciary Net Assets*. Because an agency fund does not have net assets, it is not included in the *Statement of Changes in Fiduciary Net Assets*. The charter school will continue to present the *Student Activity Agency Fund Schedule of Receipts and Disbursements* in Other Supplementary Information (Exhibit H-3).

**Payroll funds:** Where a charter schools uses a central payroll system and reports all payroll deductions in an agency fund, the unremitted balances in the agency fund at year-end are reported by the agency fund as liabilities. Refer to Section II-10.2 for discussion on regulations related to third party disbursements (payroll service organizations). The regulations (*N.J.A.C. 5:30-17 et seq.*) are available at <http://www.nj.gov/dca/lgs/rules/rulesmenu.shtml>.

**Student Activity funds:** are reported as agency funds within the CAFR. An arrangement between a student organization and the charter school whereby the charter school maintains the cash raised by the student organization is a common example of a student activity fund.

**Organizations under the Auspices of the School**

Any organization which is officially recognized by the school as part of the activity program of the charter school, places at least indirect responsibility for supervision and control of that organization with the board of trustees. The board should formally approve each fund in the charter school. If any fund is an activity carried on by the board, an officer or employee of the board, or an organization of public school pupils conducted under the auspices of the board, the board must assure that financial and bookkeeping controls are established.

The State Board of Education has not prescribed a uniform system of bookkeeping for the activities funds of charter schools. *N.J.A.C. 6A:23-2.14* states, “Each district board of education and charter school board of trustees shall ensure through adoption of a formal board policy that all financial and bookkeeping controls are adequate to ensure appropriate fiscal accountability and sound business practices.” This policy shall include but not be limited to, the following minimum requirements:

- 1) Receipts shall be detailed showing date, resources, purpose and amount. All receipts should be promptly deposited in the bank. Bank deposits must agree with the receipts in the cash receipt book and must be traceable to definite receipts or groups of receipts.
- 2) Disbursements shall be recorded chronologically showing date, vendor, check number, purpose and amount. All disbursements should be made by check and supported by a claim, bill or written order to persons supervising the fund. Checks should bear two or more authorized signatures.
- 3) Book balances shall be reconciled with bank balances. Canceled checks and bank statements must be retained for examination by the auditor as part of the annual audit.

**SECTION II – SPECIFIC COMPLIANCE**  
**FIDUCIARY FUNDS**  
**FUND 90 – AGENCY FUNDS**

- 4) Student activity funds shall be classified by school.
- 5) Borrowing from the student activity fund is prohibited.

Charter school auditors should refer to Chapter 15 of the *GAAP Technical Systems Manual*.

**Fund Raising in Schools by Outside Organizations**

Organizations such as the United Fund, March of Dimes, etc., may request that moneys be collected. These funds are not subject to audit. Boards of trustees may give permission for the collection to be made in schools. Any teacher or pupil who serves as a collector does so as a private citizen and not as an employee of the board. Accurate records must be kept but responsibility is to the organization and not to the board of trustees for the money collected.

In order to avoid misunderstanding, we advise that boards of trustees that give permission for soliciting in a school building by outside organizations make it clear that the board is not directing the teachers and pupils to collect funds, but merely granting permission to do so. The board is further advised to disclaim any responsibility for the protection of, and the accounting for, the funds to the outside organizations.

Any collector should understand that he/she is collecting voluntarily as a citizen and not as a teacher or pupil, and that the board of trustees has no responsibility for the protection of moneys so collected. Some boards may have given permission for depositing funds collected in drives in a school activity account and the issuance of checks thereon to the outside organization. Although this might be a convenience to school personnel who are handling the money collected, it causes an undesirable commingling of funds for which the board should have no responsibility. The commingling of such funds is legally suspect. However, if it occurs the commingled funds are subject to audit by the boards' auditors.

**Funds of Teacher Organizations and Parent/Teacher Organizations**

The law provides that the books, accounts and moneys of any officer or employee of the board shall be audited. This does not mean that every time a school employee serves as treasurer of an organization that the account must be audited. It is only when money is held for which the board is directly or indirectly responsible that the accounts must be audited. The board has no responsibility for the funds of teacher organizations. A school employee who serves as a treasurer of such an organization does so as a citizen and not as an employee of the board. If moneys were deposited in a central school fund, they would be subject to audit.

**Funds Collected by Teachers from Pupils for Immediate Purchase of Items**

Teachers may receive money from children to buy magazines, tickets, etc. in bulk to save the children money. It is our opinion that in so doing, the teacher represents the children and not the board of trustees and assumes and assumes full responsibility for the transactions

Refer to Section I, Chapter I for information on GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

**SECTION II – SPECIFIC COMPLIANCE**  
**CAPITAL ASSETS**

**Overview**

Capital assets include land and land improvements, buildings, furniture, fixtures and equipment, infrastructure items, works of art and historical treasures.

The department notified charter schools by memorandum dated January 11, 2001 that, effective July 1, 2001, the capitalization threshold used by charter schools in the State of New Jersey is increased to \$2,000. This is a policy set for financial reporting and accounting purposes. Charter schools may use a lower threshold for asset management and insurance purposes.

*The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition)*(COA) was issued effective for July 1, 2004 and eliminated the GFAAG to be consistent with GASB 34 and the National Center for Education Statistics Chart of Accounts. Charter schools are still required to record capital assets and may designate a numeric or alpha fund number in their general ledger which is suitable for their software system (e.g. 100, 99 or CA) or use a separate fixed asset module. The fixed asset ledger should be updated monthly for internal control purposes.

**Reporting Capital Assets**

Capital assets are reported in at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. “Ancillary charges include costs that are directly attributable to asset acquisition – such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charge, if any.” (GASB 34, par. 18, as amended by GASB 37, par. 6).

The chart below highlights which statements report capital assets. “N/A” means that statement is not issued for that particular fund type, whereas “No” means that statement is issued for that particular fund type but capital assets are not reported.

Class of capital asset	Charter-school wide Statements	Funds statements	Budgetary comparison schedules
Governmental	Y	No	No
Proprietary	Y	Y	N/A
Fiduciary	N/A	Y	N/A

*Statement of Net Assets*

Report these assets within the governmental activities column in the charter school-wide *Statement of Net Assets*. Capital assets of proprietary funds are reported in the business-type activities column of the *Statement of Net Assets*.

**SECTION II – SPECIFIC COMPLIANCE**  
**CAPITAL ASSETS**

*Funds Statements*

Capital assets used in governmental activities are not reported as assets in governmental funds statements since the governmental funds statements follow the modified accrual basis of accounting and capital assets are not current financial resources. Proprietary fund capital assets are reported in the fund statements since this fund uses the accrual basis of accounting (economic resources). Capital assets of fiduciary funds are reported in the fund level since the fiduciary funds statements use the accrual basis of accounting. The fiduciary assets are not considered available to the charter school and therefore are not reported in the charter-school wide statements.

Capital outlays of government funds are reported as a reconciling item in the *Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, which reconciles the net change in government fund balances to the change in net assets of governmental activities.

Charter school staff and auditors may refer to the NJDOE GASB 34 web site for sample statements noted above <http://www.state.nj.us/njded/finance/fp/gasb34/outline.shtml#worksheets>. Charter school staff and auditors should also refer to the Section II-30, Capital Projects Fund of this *Audit Program* for related subjects.

**Capital Leases**

Assets acquired under a capital lease would be recorded at the inception of the lease. In order to convert the fund financial statements from a modified accrual basis to an accrual basis for the preparation of the government-wide financial statements, the expenditure must be capitalized, any related depreciation expense must be recorded, and the debt must be recognized along with the accrual of any related interest expense.

**Construction in Progress**

Assets under construction are tracked through Construction in Progress until completion. *N.J.S.A. 18A:18A-42* provides that purchase orders for construction, reconstruction, or rehabilitation of any public building are valid for the length of time authorized for completion of the actual project.

**Reporting of Capital Assets Acquired Through Non-Cash Grants**

Capital assets acquired through non-cash grants are reported only in the charter school-wide Statement of Net Assets at fair market value. This is applicable to buildings constructed for a charter school by the Economic Development Authority/School Construction Corporation (SCC). Charter schools are to obtain the June 30 value of SCC constructed assets from the SCC.



**SECTION II – SPECIFIC COMPLIANCE**  
**CAPITAL ASSETS**

**Sample Format for the Capital Asset Subsidiary Ledger**

As noted in Chapter I-1 of this Audit Program, schedules of capital (fixed) assets should be prepared prior to audit. The following is a suggested minimum format for charter schools' use in maintaining records of capital assets, including accumulated depreciation (Accum. Depr.) and depreciation (Depr.):

Classification	N1	N2	Date Placed in Service	Acquisition Cost	Method of Depr.	Life N3	6/30/05 Accum Depr.	7/1/05- 6/30/06 Depr. Expense	6/30/06 Accum. Depr.
<b>Buildings:</b>									
School #1			7/1/98	\$5,000,000	S/L	35 yr	\$1,142,857	\$142,857	\$1,285,714
<b>Furniture:</b>									
Desks	B2	P5	7/1/98	\$5,000	S/L	10 yr	\$4,000	\$500	\$4,500

N1 – Assets should be tagged and maintained by physical location.

N2 – Assets that can be specifically identified to a program or function should be noted with the program code. If assets are not specifically identifiable, the district should note "N/A" in the program column.

N3 – Charter schools may refer to the table of estimated useful lives (International ASBO) included in Section I-1 of this Audit Program.

**Depreciation Expense**

The *GASB 34 Implementation Guide* dated April 2000 provides guidance on depreciation expense which is to be reported as a direct expense of the function served. As the number of functions served by an asset increases, the ease, practicality and usefulness of assigning depreciation to those functions decreases. Therefore, depreciation of assets serving many or essentially all functions is not required to be included in the direct expense of those many functions. Depreciation of a shared capital asset used by only a few functions can be allocated to those functions using an objective measure for the assignment of cost. For example, building depreciation may be allocated based on square footage assigned to the respective functions. The department recommends charter schools use the straight line method of depreciation.

**SECTION II – SPECIFIC COMPLIANCE**  
**CAPITAL ASSETS**

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**SECTION II – SPECIFIC COMPLIANCE**  
**LONG-TERM LIABILITIES**

**Overview**

Long-term liabilities generally include debt issuances, the non-current portion of lease-purchase agreements, capital leases, operating leases with scheduled rent increases, compensated absences, claims and judgments, early retirement incentive programs, and mortgages.

*The Uniform Minimum Chart of Accounts for New Jersey Public Schools (2003 Edition)*(COA) was issued effective for July 1, 2004 and eliminated the GLTDAG to be consistent with GASB 34 and the National Center of Education Chart of Accounts. Charter schools must continue to record the long-term liabilities in the general ledger and may designate a numeric or alpha fund number which is suitable for their software system, e.g. 100, 99 or LT. The ledger should be updated on a periodic basis (e.g., monthly), for internal control.

**Note:** Pursuant to *N.J.A.C. 6A 11-7.3(b)*, unless backed by a mortgage, all charter school loans are to be temporary debts in anticipation of the receipt of funds and must be repaid by the end of each school year.

**Statement of Net Assets**

General long-term liabilities include, bonds, notes and other long-term liabilities that are not directly related to and expected to be paid from proprietary and trust funds. Liabilities of the proprietary fund are reported in the proprietary fund *Statement of Net Assets*; liabilities of the trust fund are reported in the *Statement of Fiduciary Net Assets*. General long-term liabilities of the charter school should be reported in the governmental activities column of the charter school-wide *Statement of Net Assets*. Similar to the presentation of assets, liabilities are reported in the order of liquidity. “Liabilities with average maturities greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year” (GASB 34, par. 31).

Interfund liabilities, even if non-current, are not long-term liabilities. Charter school staff and auditors should refer to the revised GASB Codification 1500.

**Governmental Funds Statements**

Governmental funds reporting focuses on current financial resources, hence the fund financial statements do not include long-term liabilities. The fund statements are intended to present a more detailed short-term view of basic education services with the most readily available assets and current liabilities. The governmental funds balance sheet includes a reconciliation of total governmental funds balance to the net assets of governmental activities. Long-term liabilities are a common reconciling item. The purpose of the reconciliation is to assist the reader to understand how the short-term financial information in the governmental funds statements differs from the more comprehensive financial information in the charter school-wide statements.

**Disclosures**

Refer to GASB 34, GASB 38, and the GASB Implementation Guides for guidance on disclosures including provisions for year-end accrual of interest, and inclusion for discussion within the Management Discussion and Analysis.

**SECTION II – SPECIFIC COMPLIANCE**  
**LONG-TERM LIABILITIES**

**Compensated Absences**

Statement No. 16 of the Governmental Accounting Standards Board (GASB), “Accounting for Compensated Absences”, changed the method for calculation of a charter school’s liability for compensated absences (e.g., vacation, sick leave). This Statement supersedes the instructions shown on pages 13.4 and 13.5 of the GAAP Technical Systems manual regarding calculation of this liability for inclusion in the general long-term debt account group. By memo of May 15, 1995, this department advised School Administrators and Public School Accountants of the change. Auditors should refer to GASB 16 and the Codification of Governmental Accounting and Financial Reporting Standards, Section C60, for further explanation and illustrations of calculations of vacation leave and sick leave.

The inclusion of the long term portion of compensated absences in the charter school-wide Statement of Net Assets may generate a deficit in unrestricted net assets. This occurs because the pre-GASB 34 fund balance is based on current resources, whereas the GASB 34 net assets is based on economic resources and includes both long term assets and long term liabilities. When the long-term portion of compensated absences exceeds all other unrestricted net assets, a deficit will occur.

**Pension and Other Postemployment Benefits (OPEB)**

For purposes of the charter school’s accrual and modified accrual statements, the annual pension (PERS) expense/expenditures is generally equal to the charter school’s contractually required contributions to the plan defined as the “contributions assessed by a cost-sharing pension or OPEB plan to the participating employers for the periods to which the contractual requirement relates.” GASB issued Technical Bulletin (TB) 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*, in December 2004 to clarify the application of requirements regarding accrual issues related to GASBs 27 and 45. GASB 45 has phase-in periods for implementation beginning with reporting periods after December 15, 2006 and based on the criteria used for GASB 34. Examples of OPEB include healthcare benefits, life insurance, and long-term care. Due to the technical nature and level of detail of GASB 45, charter school staff and auditors should refer to TB 2004-02 and the GASB 45 available through GASB’s website ([www.gasb.org](http://www.gasb.org)) for further guidance.

**Early Retirement Incentive Program (PERS/TPAF and Other Offers)**

Legislation enacted in 1991, 1993 and 2002 provided early retirement incentives (ERIP) for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in that fiscal year. The ERIP was subject to Board approval. Charter Schools are assessed annually for their actuarially determined contribution to fund this program. Each participating charter school was given several options as to the length of time it desired to fund this liability.

Under GAAP, the charter school ERIP liability is considered a contractual obligation. The liability is calculated for each participating charter school and billed to the charter school separately from its normal pension obligation, if any. In the *Statement of Net Assets*, the unpaid principal portion of the liability is to be included as part of the charter school’s long term liabilities. For fund statement purposes, advance payments made against that contractual obligation are considered GAAP expenditures in the year of payment. The department recommends proper footnote disclosure and a supplemental exhibit identifying the annual maturities.

**SECTION II – SPECIFIC COMPLIANCE**  
**LONG-TERM LIABILITIES**

**Termination Benefits**

Termination benefits may be voluntary (early-retirement incentives) or involuntary (severance benefits). GASB Statement 47 *Accounting for Termination Benefits* was issued in June 2005, and is effective for periods beginning after June 15, 2005 for termination benefits offered outside of an existing defined benefit or other postemployment benefit (OPEB) plan. Benefits affecting an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, or GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*.

**SECTION II – SPECIFIC COMPLIANCE**  
**LONG-TERM LIABILITIES**

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## **SECTION II – SPECIFIC COMPLIANCE**

### **SINGLE AUDIT**

#### **Federal and State Audit Requirements**

##### **Federal Single Audit Act**

The Single Audit Act Amendments of 1996 (Act) establishes uniform requirements for audits of Federal awards administered by non-Federal entities. The Act promotes sound financial management, including effective internal controls, with respect to Federal Awards administered by non-Federal entities. The Federal Office of Management and Budget (USOMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* provides the government wide guidelines and policies on performing audits to comply with the Single Audit Act and requires the use of Generally Accepted Government Auditing Standards (GAGAS). Non-federal entities that expend \$500,000 or more in a year in Federal awards are required to have a Single Audit in accordance with provisions in Circular A-133. The revised version of Circular A-133 is available on the web site, <http://www.whitehouse.gov/omb/circulars/index.html> under the link for Circulars.

The Act requires that GAGAS be followed in audits of state and local governments. *Government Auditing Standards* issued by the Comptroller General of the United States addresses the standards and guidance generally known as GAGAS. A printed copy of the document can be purchased from the Government Printing Office (GPO) – by calling the Superintendent of Documents at (202) 512-1800 or via the GPO website at <http://bookstore.gpo.gov>. When ordering this document, refer to Stock Number 020-000-00284-1. The 2003 Yellow Book is available in electronic form through the GAO website [www.gao.gov](http://www.gao.gov).

When auditing federal programs for the fiscal year ending in 2006, auditors are required to follow the provisions of *OMB Circular A-133* and the March 2006 *OMB A-133 Compliance Supplement*. The 2006 Compliance Supplement is available on the Internet at <http://www.omb.gov> (click on Circulars). The 2006 Compliance Supplement is available at the same website in PDF or WORD or for sale from the Government Printing Office by calling (202) 512-1800. The stock number for this document is 041-001-00629-0. Auditors should select from a list of departments in Part 4 of the Compliance Supplement, (e.g. Dept of Agriculture, Dept. of Education; Dept. of Health and Human Services) to determine compliance requirements for a specific program or grant. Appendix 5 of the document contains a list of changes in the 2006 Compliance Supplement.

**The applicable Catalog of Federal Domestic Assistance (CFDA) number for a federal grant or federal aid can be found on the New Jersey Department of Education (NJDOE) Contract. A listing of grants available through NJDOE with their CFDA numbers is in this chapter of the Audit Program (Section II-SA) and the auditor can look up a program at the CFDA web site: <http://www.cfda.gov/public>. Click the heading “Search for Assistance Programs (HTML).” Here there are several ways to search for programs including by number, or if necessary you can click on the heading of All Programs Listed Numerically.**

##### **State of New Jersey Single Audit Act**

NJ State Office of Management and Budget (NJOMB) Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* (NJOMB 04-04) supercedes NJOMB 98-07 and establishes State policy and procedures regarding audits of grant and State aid recipients, and outlines the

## **SECTION II – SPECIFIC COMPLIANCE**

### **SINGLE AUDIT**

responsibilities of state agencies and grant recipients to ensure that recipient audits are performed according to Federal and State requirements. NJOMB 04-04 is available on the website: <http://www.state.nj.us/infobank/circular/cir0404b.htm>. The revision raises the threshold for a single audit to \$500,000 or more expended in federal financial assistance or State financial assistance within the recipient's fiscal year. This revision did not change the requirement that recipients which expend less than the threshold of \$500,000 in federal or State financial assistance within their fiscal year, but expend \$100,000 or more in State or federal financial assistance within their fiscal year, must have either a financial statement audit performed in accordance with *Government Auditing Standards (Yellow Book)* Or a program-specific audit performed in accordance with the Act, Amendments, OMB A-133 Revised and State policy. Compliance requirements for the Department of Education (and other departments) are contained in the State Grant Compliance Supplement which is published to assist auditors in testing recipient compliance with state grant and State aid financial assistance programs and applicable laws and regulations which is available on the Internet at <http://www.state.nj.us/treasury/omb/> (see Highlights).

#### **AICPA Single Audit Guidance**

The AICPA audit guide, *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* (Guide for Federal Awards), provides guidance on the auditor's responsibilities when conducting a single audit or program specific audit in accordance with the Single Audit Act Amendments of 1996 and USOMB Circular A-133. The Guide for Federal Awards incorporates guidance from the following:

- The Single Audit Act Amendments of 1996,
- OMB Circular A-133,
- AICPA Statement on Auditing Standards No. 74, *Compliance Auditing Considerations in Audits of Government Entities and Recipients of Governmental Financial Assistance*,
- *Government Auditing Standards*,
- OMB Circular A-133 Compliance Supplement

#### **Risk-Based Approach**

If a charter school is being audited for the second time under Circular A-133 the auditor must follow the risk-based approach to determine major programs in accordance with section .520 of Circular A-133. Section .520(i) of Circular A-133 allows auditors to deviate from the use of the required risk-based approach when determining major programs during the first year that an entity is audited under the revised Circular A-133 or the first year of a change of auditors.

NJOMB Circular Letter 04-04 also requires the use of the same risk based approach to audit and monitor State financial assistance as used in federal programs. The AICPA's *Guide for Federal Awards* and the USOMB Circular A-133 (Section .520) should be referenced for guidance on this approach.



**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

**Schedules of Expenditures of Federal Awards and State Financial Assistance**

All special projects including those funded by pass-through monies, other than those funded locally under the general fund, must be separately accounted for in the charter school accounting records. The CAFR must include a separate *Schedule of Expenditures of Federal Awards* (Schedule A) and a separate *Schedule of Expenditures of State Financial Assistance* (Schedule B). The format of the schedules included in the sample CAFR was designed to provide the history of a grant from its initial award to the final disposition of the funds through either their expenditure or their refund to the grantor. Instructions regarding schedule preparation are included in this section of the Audit Program. Please note the titles of these schedules are as indicated in the USOMB Circular A-133 and NJOMB Circular Letter 04-04.

**Federal Awards: Carryover/Deferred Revenue/Due Back to Grantor**

In the event that the budgetary expenditure incurred by the charter school is less than the amount of federal aid cash received (special revenue only), the charter school shall apply for carryover where permissible by statute after completion of the project period. Those funds not available for carryover but with a grant expiration date beyond June 30th, are not due to the grantor until the grant expiration date has elapsed. In this situation, excess cash received shall be reported as deferred revenue on the *Schedule of Expenditures of Federal Financial Assistance* (Schedule A) of the audit report, in the column entitled "Deferred Revenue." When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "Deferred Revenue." When the amount of cash received is less than budgetary expenditures, a receivable shall be shown as a negative amount on Schedule A, in the column entitled "(Accounts Receivable)." No negative cash balances are permissible in the balance sheet. There should be an interfund payable set up to reflect advances from the General Fund.

When no carryover application is made, when current grant funds are expired or when prior year entitlement funds are expired, the funds shall be refundable to the department and shall be reported on Schedule A, column entitled "Due to Grantor." All funds that have been refunded during the fiscal year shall be shown on Schedule A, column entitled "Repayment of Prior Year Balances."

The following state/federal guidelines are applicable for grant close-out procedures:

**Code of Federal Regulations: Title 34 Education (Part 80 – Sec.80.50 Closeout)**

(d)(2): "The grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants."

The *No Child Left Behind Act* (NCLB) of 2001 (P.L. No. 107-110) reauthorizes the *Elementary and Secondary Education Act of 1965* (ESEA). NCLB contains fiscal compliance issues including, but not limited to, supplement not supplant, commingling of funds, allowable costs, administrative costs caps, maintenance of fiscal effort, comparability, transferability, and schoolwide programs. NCLB Policy Guidance is available at <http://www.nclb.gov>. The New Jersey NCLB Reference Manual includes fiscal guidance in Section IV "Fiscal Regulations and Responsibility" of the FY 2005 NCLB Application available at <http://www.njgov/njded/grants/entitlement/nclb>.

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

Auditors are also advised to obtain the Federal OMB-133 2006 *Compliance Supplement* updates which will be available at [www.omb.gov](http://www.omb.gov) (click on circulars at the lower left and scroll down to OMB-133) or at [http://www.whitehouse.gov/omb/circulars/a133\\_compliance/06/06toc.html](http://www.whitehouse.gov/omb/circulars/a133_compliance/06/06toc.html).

It should be noted that pursuant to the *Elementary and Secondary Education Act* (ESEA) as amended by the NCLB, the U.S. Department of Education has provided guidelines for preparing the schedule of expenditures of federal financial awards when grantees transfer amounts between ESEA programs, consolidate administrative funds of ESEA programs or combine ESEA funds in school-wide program. For pre-NCLB programs, the ESEA statute is available at <http://www.ed.gov/legislation/ESEA>.

**Federal Awards: Title I Schoolwide Status:**

All charter schools with an approved Title I schoolwide program may combine certain federal funds. If the school does combine these resources, the expenditures are then accounted for down to the function object level as a combined federal source. Those expenditures will need to be allocated back to the original federal funding sources at June 30. This activity for the charter schools will be recorded in Fund 20, not Fund 15.

**Preparing the Schedule of Expenditures of Federal Awards and State Financial Assistance**

Two separate schedules, the *Schedule of Expenditures of Federal Awards* and the *Schedule of Expenditures of State Financial Assistance* are prepared from the charter school records and must include all active (i.e. - not closed) financial assistance programs in which a charter school is participating regardless of the fund in which they are accounted. Each schedule must reflect the current fiscal year's activity by program in the format as presented later in this chapter of the Audit Program (II-SA-20, 14). The information presented on these schedules must agree with the amounts reported in the *Budgetary Comparison Schedules* and the *Combining Schedule of Program Revenues and Expenditures, Special Revenue Fund – Budgetary Basis*. Explanations of the information required to be included are presented below.

These schedules are prepared using budgetary expenditures which must be reconciled to the *Balance Sheet – Governmental Funds* on the *Budget to GAAP Reconciliation in the Notes to RSI*. The adjustment for encumbrances in the special revenue fund will be reported as reconciling items. See Section I-8 and III-3 for additional guidance.

The schedules of expenditures of federal awards and expenditures of state financial assistance must be in the same format as those shown in the sample schedules in this chapter, including all columns, even if left blank. Schedules must be subtotaled by grantor and reflect grand totals for the following columns: Budgetary Expenditures, (Intergovernmental Accounts Receivable), Deferred Revenue and Due to Grantor. The value of noncash assistance must be included on the applicable schedule or a note in the schedule. In addition, federal programs included in a cluster of programs must be listed individually.

**SECTION II – SPECIFIC COMPLIANCE**  
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**Definitions/Headers**

1. **Grantor/Program Title:** This column designates the original grantor department/agency (grantor) of the financial assistance and the name of the assistance program. Programs are classified by grantor and are further delineated within grantor as to direct or pass-through programs. The schedule must identify the program as direct or pass-through. When there are several active grants within the same program they will be presented separately within the schedule.
2. **Federal CFDA Number:** Applicable to *Schedule of Expenditures of Federal Awards* only. Represents the federal program number, which is obtainable from the Catalog of Federal Domestic Assistance (CFDA). When the CFDA number is not available, this fact should be noted and the program should be identified by another identifying number, if available.
3. **Grant (Contract) or State Project Number: (State Aid NJCFS Number):** This is applicable to the *Schedule of Expenditures of State Financial Assistance* only and is the state identifying number that can be obtained in a latter page of this chapter of the Audit Program (II-SA) or from the NJ State Appropriations Handbook. It is used by the Department of Education for monitoring and reconciling state awards.
4. **Grant Period:** Represents the initial period for which the program was awarded.
5. **Program/Award Amount:** Designates the amount of the initial program award. The full amount of the award or grant agreement should be reported in this column. **Noncash awards such as a state grant for facilities (EDA/SCC funds) which are paid directly by the EDA/SCC to the vendors are included in this column and may be notated (NC).**
6. **Balance at June 30, 2005:** This is used to present deferred revenue, intergovernmental accounts payable (due to grantor), or intergovernmental accounts receivable for those prior year programs, which have balances as of the end of the prior fiscal year. On the *Schedule of Expenditures of Federal Awards* these amounts are shown netted in one column, but the charter school may separate them into multiple columns. On the *Schedule of Expenditures of State Assistance* a separate column is presented for Due to Grantor . A charter school may report accounts receivable and deferred revenue in either a single column or a separate column A positive amount reflects deferred revenue or intergovernmental accounts payable. A negative amount for unrestricted revenue sources represents an intergovernmental accounts receivable. The budgetary receivable included in the 2004-05 *Schedule of Expenditures of State Assistance* is not included in this column.
7. **Carryover/(Walkover) Amount:** Reflects the movement of award proceeds, which have been approved for carryover into a carryover program code. Note that any walkover amount must be reflected as a negative amount on the line from which it was transferred, and a positive amount on the grant/aid program line to which it was transferred. Prior year state restricted formula aids would be reflected in this column.
8. **Cash Received:** Reflects the amount of cash received during the current fiscal year for the applicable financial assistance program.

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

- 9. Budgetary Expenditures:** Represents the total costs chargeable to the program during the current fiscal year on a budgetary basis. These amounts must agree with the amounts reported in the *Budgetary Comparison Schedules* (General Fund and Special Revenue Fund) and the *Budgetary Comparison Schedule, Note to RSI* and the *Special Revenue Combining Schedule of Program Revenues and Expenditures – Budgetary Basis*.
- 10. Adjustments:** In instances where a grant period overlaps fiscal years and the grant has not closed out as of the end of the current fiscal year, favorable differences incurred in the liquidation of encumbrances charged as budgetary basis expenditures in the prior year should be included in the *Schedules of Expenditures of Federal Awards* (Schedule A) and *Schedule of Expenditures of Expenditures of State Financial Assistance* (Schedule B) in a column entitled “Adjustments.” This column would not be used for differences in the liquidation of encumbrances on grants, which have closed out as of the end of the current fiscal year since these differences would affect current year expenditures. Reporting this information separately from current year expenditures will provide a clearer indication of the grant activity during a period of time. Any amount reported as an adjustment in the Schedule A or Schedule B must be fully explained in the *Notes to the Schedules of Expenditures of Awards and Financial Assistance*, including the reason for the adjustment and the period to which it pertains. The charter school should include a column for Adjustments only if it is applicable.
- 11. Repayment of Prior Years' Balances:**  
 Repayments made during the current fiscal year to a grantor for unexpended funds on a program whose grant period has expired and no carryover was granted or allowed. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor. The charter school should include a column for Repayment of Prior Years' Balances only if it is applicable. The column is not shown on the sample Schedule B, but would be inserted after the Expenditures (or Adjustments if applicable) column.
- 12. Intragovernmental Receivable June 30, 2006:** Amounts receivable from the grantor as of fiscal year end are reflected here. These amounts must agree with the amounts reported in the Balance Sheet (Exhibit B-1) for the governmental funds or with the Food Service column in the Statement of Net Assets (Exhibit B-4) for the Proprietary Funds.
- 13. Deferred Revenue at June 30, 2006:** Unexpended award proceeds as of fiscal year end which are expendable in the subsequent fiscal year or amounts receivable from the grantor as of fiscal year end are reflected here. These amounts must reconcile to the amounts reported in the *Basic Financial Statements*.
- 14. Due to Grantor at Fiscal June 30, 2006:** Unexpended award proceeds, which are due back to the grantor as of fiscal year end, are listed here. These amounts are reflected in the general ledger as Intergovernmental Accounts Payable and should reconcile to the amounts reported in the *Basic Financial Statements*. This column will be utilized by the Department of Education to identify and collect moneys due to the state for federal and state programs. If the charter school has amounts due back to the grantor at the end of the fiscal year, that amount must appear in the Due to Grantor column of the current fiscal year, and also in each subsequent year's CAFR as a balance at June 30 of the prior year until the amount is ultimately repaid. If the charter school has no unexpended award proceeds due back to the grantor, show the column heading and leave the column blank.

**SECTION II – SPECIFIC COMPLIANCE**  
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15. **Budgetary Receivable:** The amount reported in the first MEMO column on Schedule of Expenditures of State Financial Assistance is computed using the Program/Award amount less the cash received. A deficit in a program cannot exceed this amount.
16. **Cumulative Total Expenditures:** This column is a memo only column, used on the *Schedule of Expenditures of State Financial Assistance*, and reports the cumulative expenditures of a grant. If the grant crosses fiscal years, the amount may differ from the budgetary expenditures since the budgetary expenditures represents expenditures for only the current fiscal year. These amounts will most likely be the same for most forms of state aid reported by NJ charter schools.

**Specific Program Information**

The award amount and budgetary expenditure figures for general fund state aids other than TPAF/Social Security reimbursements should be equal and agree with the amount shown as revenues for the applicable state aid in the financial statements. This also applies to on-behalf TPAF Pension amounts that must be included in the *Schedule of Expenditures of State Financial Assistance*.

TPAF Social Security reimbursements must be reflected on the *Schedule of Expenditures of State Financial Assistance*. Any receivable outstanding from the prior year should be shown on a separate line. The current year award and expenditure amount represents the total of the amounts submitted for reimbursement during the current year. The uncollected balance (cash received minus amount billed) is shown as intergovernmental accounts receivable at year end.

Food Distribution Program (Formerly USDA Commodities) should be presented in the schedule at the full cash equivalent value. The award and cash received amounts should be the value of the commodities distributed during the year. The budgetary expenditures amount is the amount of inventory consumed and the deferred revenue amount is the ending inventory amount.

**Audit Findings**

The identification of major programs with an asterisk (\*) in the schedule of expenditures of federal awards and state financial assistance is not required. This information is included in the Schedule of Findings and Questioned Costs prepared by the auditor.

The Auditors Management Report and the Schedule of Findings and Questioned Costs must indicate whether the charter school has complied with federal and state regulations in a timely manner. Grant refunds are to be submitted with the Final Expenditure Reports. Discretionary grant refunds are required by the department upon approval of the final expenditure report. If grant periods extend beyond the audit deadline of June 30<sup>th</sup>, unexpended funds should be listed as Deferred Revenue and refunded with the Final Expenditure Reports. Do not list Repayment of Prior Years' Balances unless refunds have been sent to the Grantor. If the Charter School Schedule of Finding and Questioned Costs or Audit Findings indicate that refunds are due, the refunds are to be submitted promptly with an explanation regarding the findings.

Corrective Action Plans filed by the charter school with the grantor indicate non-compliance issues. Auditors should review the Charter School's Findings, and the Schedule of Findings and Questioned Cost and the schedules listed above. When a Corrective Action Plan has been adopted by the charter school, the auditor must consider the impact of the potential non-compliance with the grant terms on the financial statements (CAFR).

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

**FEDERAL PROGRAM NUMBERS  
FROM CATALOG OF FEDERAL  
DOMESTIC ASSISTANCE  
(List Not All Inclusive)**

**CFDA #**

10.550	Food Donation
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.558	Child and Adult Care Food Program
10.559	Summer Food Service Program for Children
<b>10.574</b>	<b>Team Nutrition Training (TNT)</b>
47.049	Statewide Systemic Initiative in Science, Mathematics and Engineering Education
84.010A	Title I Grants to Local Educational Agencies
84.011A	Migrant Education - Basic State Formula Grant Program
84.013A	Title I Program for Neglected and Delinquent Children
84.027	Individuals with Disabilities – States Grant
84.040	Impact Aid – Facilities Maintenance
84.041	Impact Aid
84.048A	Vocational Education - Basic Grants to States
84.173	Special Education- Preschool Grants
84.184R	Drug and Violence Prevention Management Improvement Grant
84.185	Byrd Honors Scholarships
84.186A	Safe and Drug-Free Schools and Communities - State Grants (SEA Portion)

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

**FEDERAL PROGRAM NUMBERS cont'd.**

CFDA #

84.186B	Safe and Drug-Free Schools and Communities – State Grants (Governor’s Portion)
84.196	Education for Homeless Children and Youth
84.213C	Even Start – State Education Agencies
84.215V	Partnerships in Character Education
84.243A	Vocational Education – Tech Prep Education
84.282	Public Charter Schools
84.287C	After School Learning Centers (21 <sup>st</sup> Century)
<b>84.293C</b>	<b>Foreign Language Assistance – SEA Grants</b>
84.298A	Innovative Education Programs Title V
84.318X	Enhancing Education through Technology
84.323A	State Program Improvement Grants
<b>84.330</b>	<b>Advanced Placement Fee Program</b>
84.332A	Comprehensive School Reform Dem Program
<b>84.336C</b>	<b>Stepping Up Teacher Recruitment &amp; Retention in High Need Schools</b>
84.357A	Reading First
<b>84.358B</b>	<b>Rural and Low-Income Schools</b>
84.365A	English Language Acquisition (SEA)
84.366B	Mathematics & Science Partnerships
84.367A	Improving Teacher Quality State Grants/(School Renovation Grant)
84.367B	Improving Teacher Quality Grants SAHES (Higher Ed)
84.369A	State Assessments & Related Activities
<b>84.938C</b>	<b>Hurricane Relief Grant</b>

**SECTION II – SPECIFIC COMPLIANCE**  
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**FEDERAL PROGRAM NUMBERS cont'd.**

CFDA #

84.CON      National Center for Ed Statistics NAEP Grant

93.778      Medical Assistance Program

93.938      Improving the Health Education & Well-Being of Young People – Yr. 2 of 5

94.004      Learn and Serve



**SECTION II – SPECIFIC COMPLIANCE**  
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**STATE AID AND STATE GRANT**  
**STATE ACCOUNT NUMBERS**

**GENERAL FUND**

06-100-034-5120-339	Core Curriculum Standards Aid
06-495-034-5120-022	Core Curriculum Standards Aid
06-495-034-5120-023	Supplemental Core Curriculum Standards Aid
06-495-034-5120-058	Additional Formula Aid
06-495-034-5120-480	High Expectations for Learning Proficiency
06-495-034-5120-014	Transportation Aid
06-495-034-5120-011	Special Education Aid
06-495-034-5120-008	Bilingual Education Aid
06-495-034-5120-030	Stabilization Aid
06-495-034-5120-033	Large Efficient District Aid
06-495-034-5120-036	Aid for Districts with High Senior Citizen Populations
06-495-034-5120-038	Stabilization Aid 2
06-495-034-5120-047	Stabilization Aid 3
06-495-034-5120-050	Regionalization Incentive Aid
06-100-034-5120-473	Extraordinary Special Education Costs Aid
06-495-034-5120-067	Abbott-Bordered District Aid
06-495-034-5120-063	Above Average Enrollment Growth
06-495-034-5120-049	Education Opportunity Aid
06-495-034-5120-057	Consolidated Aid
06-495-034-5120-013	County Vocational Program Aid
06-495-034-5120-039	Adult and Postsecondary Education Grants
06-495-034-5120-062	Teacher Quality Mentoring
06-495-034-5120-054	School Bus Crossing Arms
	Payment for Institutionalized Children - Unknown District of Residence
06-495-034-5120-005	
06-100-034-5095-001	Teacher's Pension and Annuity Fund - Post Retirement Medical
06-100-034-5095-002	Social Security Tax
06-100-034-5095-116	Teacher's Pension and Annuity Fund
06-100-034-5062-032	Vocational Education
06-495-034-5068-001	School Choice Aid
06-495-034-5068-003	Charter School Aid

**SPECIAL REVENUE**  
**FUND**

06-495-034-5120-025	Early Childhood Program Aid
06-495-034-5120-055	Abbott Preschool Expansion Aid
06-495-034-5064-002	Demonstrably Effective Program Aid
06-495-034-5120-029	Instructional Supplement Aid
06-495-034-5120-053	Character Education
06-495-034-5120-062	Early Launch to Learning Initiative
06-100-034-5120-064	N.J. Nonpublic Textbook Aid

**SECTION II – SPECIFIC COMPLIANCE**  
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06-100-034-5120-066	N.J. Nonpublic Handicapped Aid
06-100-034-5120-067	N.J. Nonpublic Auxiliary Services Aid
06-100-034-5120-068	N.J. Nonpublic Auxiliary/Handicapped Transportation Aid
06-100-034-5120-070	N.J. Nonpublic Nursing Services
06-100-034-5120-373	N.J. Nonpublic Technology Initiative
06-100-034-5120-474	N.J. Nonpublic Capital Projects Aid
06-100-034-5120-074	Education Information and Resource Center (EIRC)
06-100-034-5120-072	Emergency Aid
06-100-034-5062-026	Evening School for the Foreign Born
06-100-034-5062-032	Vocational Aid

**DEBT SERVICE FUND**

06-100-034-5120-125	Debt Service Aid - State Support
06-495-034-5120-016	Additional State School Building Aid - Chapters 10, 74, and 177

**ENTERPRISE FUND**

06-100-034-3350-021	State School Breakfast Program
06-100-010-3350-022	Nonpublic Nutrition Aid
06-100-010-3350-023	State School Lunch Program

**SCHEDULE A  
Exhibit K-3**

**ANYTOWN CHARTER SCHOOL  
Schedule of Expenditures of Federal Awards  
for the Fiscal Year ended June 30, 2006**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant or State Project Number	Program or Award Amount	Grant Period		Balance at June 30, 2005	Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments	Repayment of Prior Years' Balances	Balance at June 30, 2006		
				From	To							Accounts Receivable	Deferred Revenue	Due to Grantor

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

**ANYTOWN CHARTER SCHOOL**  
**SCHEDULE B**  
**Exhibit K-4**  
**Schedule of Expenditures of State Financial Assistance**  
**for the Fiscal Year ended June 30, 2006**

State Grantor/Program Title	Grant or State Project Number	Program or Award Amount	Grant Period From To	Balance at June 30, 2005			Carryover/ (Walkover) Amount	Cash Received	Budgetary Expenditures	Adjustments/ Repayment of Prior Years' Balances	Balance at June 30, 2006			MEMO		
				Deferred Revenue (Accts Receivable)	Due to Grantor						(Accounts Receivable)	Deferred Revenue	Due to Grantor		Budgetary Receivable	Cumulative Total Expenditures

The accompanying Notes to Schedules of Expenditures of Awards and Financial Assistance are an integral part of this schedule.

**SECTION II – SPECIFIC COMPLIANCE**  
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\_\_\_\_\_ **CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**

*Section I --Summary of Auditor's Results*

**Financial Statements**

(Reference – Section .510 of Circular OMB-133)

Type of auditor's report issued: \_\_\_\_\_

Internal control over financial reporting:

- |  |           |                     |
|--|-----------|---------------------|
| 1) Material weakness(es) identified?   | _____ yes | _____ no            |
| 2) Reportable condition(s) identified that are not considered to be material weaknesses? | _____ yes | _____ none reported |

Noncompliance material to basic financial statements noted?

\_\_\_\_\_ yes \_\_\_\_\_ no

**Federal Awards**

Internal Control over major programs:

- |  |           |                     |
|--|-----------|---------------------|
| 1) Material weakness(es) identified?   | _____ yes | _____ no            |
| 2) Reportable condition(s) identified that are not considered to be material weaknesses? | _____ yes | _____ none reported |

Type of auditor's report issued on compliance for major programs: \_\_\_\_\_

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?

\_\_\_\_\_ yes \_\_\_\_\_ no

Identification of major programs:

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
_____	_____
_____	_____
_____	_____
_____	_____

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**  
**(continued)**

Dollar threshold used to distinguish between type A and type B programs: \$ \_\_\_\_\_

***Section I --Summary of Auditor's Results (cont'd.)***

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes \_\_\_\_\_ no

**State Awards**

Dollar threshold used to distinguish between type A and type B programs: \$ \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes \_\_\_\_\_ no

Type of auditor's report issued on compliance for major programs: \_\_\_\_\_

Internal Control over major programs:

1) Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_\_\_ no

2) Reportable condition(s) identified that are not  
 considered to be material weaknesses? \_\_\_\_\_ yes \_\_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs: \_\_\_\_\_

Any audit findings disclosed that are required to be reported  
 in accordance with NJOMB Circular Letter 04-04? \_\_\_\_\_ yes \_\_\_\_\_ no

Identification of major programs:

**State Grant/Project Number(s)**

**Name of State Program**

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**Note to Preparer: When a Federal or State single audit is not required -- do not include that Awards Section.**

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

\_\_\_\_\_ **CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**  
**(continued)**

*Section II – Financial Statement Findings*

[This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the general-purpose financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*. See the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* for further guidance on this schedule.]

**(Note to Preparer -- Identify each finding with a reference number and present in the following level of detail, as applicable. If there were no findings, state that no matters were reported)**

**Finding XX-X**

**Criteria or specific requirement:**

**Condition:**

**Questioned Costs:**

**Context:**

**Effect:**

**Cause:**

**Recommendation:**

**Views of responsible officials and planned corrective actions:**

**SECTION II – SPECIFIC COMPLIANCE**  
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\_\_\_\_\_ CHARTER SCHOOL  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**  
**(continued)**

***Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs***

[This section identifies audit findings required to be reported by section .510(a) of Circular A-133 and NJOMB Circular Letter 04-04.]

**(Note to Preparer -- Identify each finding with a reference number. If there are no findings, state that no matters were reported. Findings that are required to be included in both Section II and Section III may be summarized in one section with a reference to the detailed reporting in the other section. When a Federal or State single audit is not required -- do not include that Awards Section.) Refer to AICPA Guide *Government Auditing Standards and Circular A-133 Audits.***

**FEDERAL AWARDS**

**Finding XX-X**

**Information on the federal program(1):**

**Criteria or specific requirement:**

**Condition (2):**

**Questioned Costs (3):**

**Context (4):**

**Effect:**

**Cause:**

**Recommendation:**

**Views of responsible officials and planned corrective actions (5):**



**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

\_\_\_\_\_ **SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**  
**(continued)**

*Section III -- Federal Awards and State Financial Assistance Findings and Questioned Costs (cont'd.)*

**STATE AWARDS**

**Finding XX-X**

**Information on the state program (1):**

**Criteria or specific requirement:**

**Condition (2):**

**Questioned Costs (3):**

**Context (4):**

**Effect:**

**Cause:**

**Recommendation:**

**Management's response (5):**

- (1) Provide the federal program (CFDA number and title) and state program ( NJCFS number) and agency, the federal/state awards number and year, and the name of the pass-through entity, if applicable.
- (2) Include facts that support the deficiency identified in the audit finding.
- (3) Identify questioned costs as required by section .510(a)(3) and .510(a)(4) of Circular A-133 and NJOMB Circular Letter 04-04.
- (4) Provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the universe of costs and/or number of items examined and quantification of audit findings in dollars.
- (5) To the extent practical, indicate when management does not agree with the finding and/or questioned cost. For further guidance, auditors should refer to Government Auditing Standards, par. 5.26 through 5.30, Chapter 4 and par. 12.34 and 12.38 of the AICPA Guide Government Auditing Standards and Circular A-133 Audits.

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

(6)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Charter Schools, which are required to have a federal and/or state single audit conducted in accordance with USOMB Circular A-133 and/or NJOMB 04-04, are responsible for preparing the summary schedule of prior audit findings and the corrective action plan as part of the Reporting Package required to be submitted to the Federal Clearinghouse and/or State funding departments. Charter Schools should refer to USOMB **Circular A-133 ¶ .315** for guidance on preparing these schedules.

As reference, the following excerpts from USOMB Circular 133 are provided:

- OMB 133, 500(e) “The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with ¶315(b) and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.”
- OMB 133, 315 (b)(1) states, “If the audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.”
- OMB 133, 315, (b) (2) states, “When the audit findings were not corrected, or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.”
- OMB 133, 315 (b)(2) states, “When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency’s or pass-through entity’s management decision, the summary schedule shall provide an explanation.”

Below is a sample of the summary schedule of prior audit findings.

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

**SAMPLE ONLY**

**\_\_\_\_\_ CHARTER SCHOOL**  
**SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS**  
**AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 20\_\_**

[This section identifies the status of prior-year findings related to the general-purpose financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, USOMB Circular A-133 (§ .315 (a)(b)) and NJOMB Circular 04-04.]

**(Note to Preparer -- Identify each prior-year finding with its prior-year reference number and present in the following level of detail. If there were no findings, state that no matters were reported.)**

**STATUS OF PRIOR YEAR FINDINGS**

**Finding #\_\_\_\_\_**

**Condition**

**Curent Status**

**SECTION II – SPECIFIC COMPLIANCE**  
**SINGLE AUDIT**

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